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COMMUNIST CHINA - MEXICO: The joint communiqué announcing the establishment of diplomatic relations underlines Peking's flexibility on the recognition issue.

The communiqué neither contains the usual recognition of Peking's claim to be the sole legal government of China, nor mentions Peking's claim to Taiwan. The announcement thus reverts to the formula used in establishing relations with France and three African states in 1963-64. The Chinese almost certainly will reassert the legitimacy of the Peking government and its claim to Taiwan in a People's Daily editorial and may follow up with a Foreign Ministry statement as they did after French recognition. Mexico's break with the Nationalist regime last November undoubtedly helped the Peoples Republic to adopt its more flexible diplomatic stance.

At the same time, the Mexicans will be pleased with the formula, which may help to protect any remaining assets they have in Taipei. The Mexican experience may well encourage other countries to try the same approach--first breaking with Taipei and then negotiating recognition with Peking. (CONFIDENTIAL)

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SUDAN-EGYPT: President Numayri's dismissal Sunday of his pro-Egyptian defense minister has elicited a sharp reaction from Cairo.

In response to the ouster of Khalid Hassan Abbas, the Egyptian press reported that President Sadat had dispatched Foreign Minister Ghalib to Sudan Monday to deliver an "urgent" message to Numayri and claimed that an "atmosphere of crisis" dominated Khartoum. Stating his "extreme" concern for the unity of "revolutionary" forces in Sudan, Sadat's open message, published in Cairo, hinted at a countermove by stressing Egypt's readiness "to aid in reaching this objective."

Sadat reportedly has been in constant communication with Libyan Premier Qadhafi on the situation in Khartoum and the Libyan chief of staff is in Cairo for consultations with the Egyptian defense minister after calling on Numayri.

Numayri's removal of Cairo's man in Khartoum, although partly for domestic reasons, is the latest in a series of irritants over the past few months, but Cairo's basic concern is Numayri's increasing detachment from pan-Arab affairs and problems.

Despite the political turmoil, Khartoum thus far remains quiet on the surface and Numayri appears to be in full control. Except for his grudging acceptance of a Soviet ambassador last week, there is no sign yet that he is giving way to Egyptian pressure. Cairo's attempt to force its will on Sudan is now widely known and Numayri's persistence in his Sudan-first policies appears to reflect confidence in his domestic support. (CONFIDENTIAL)

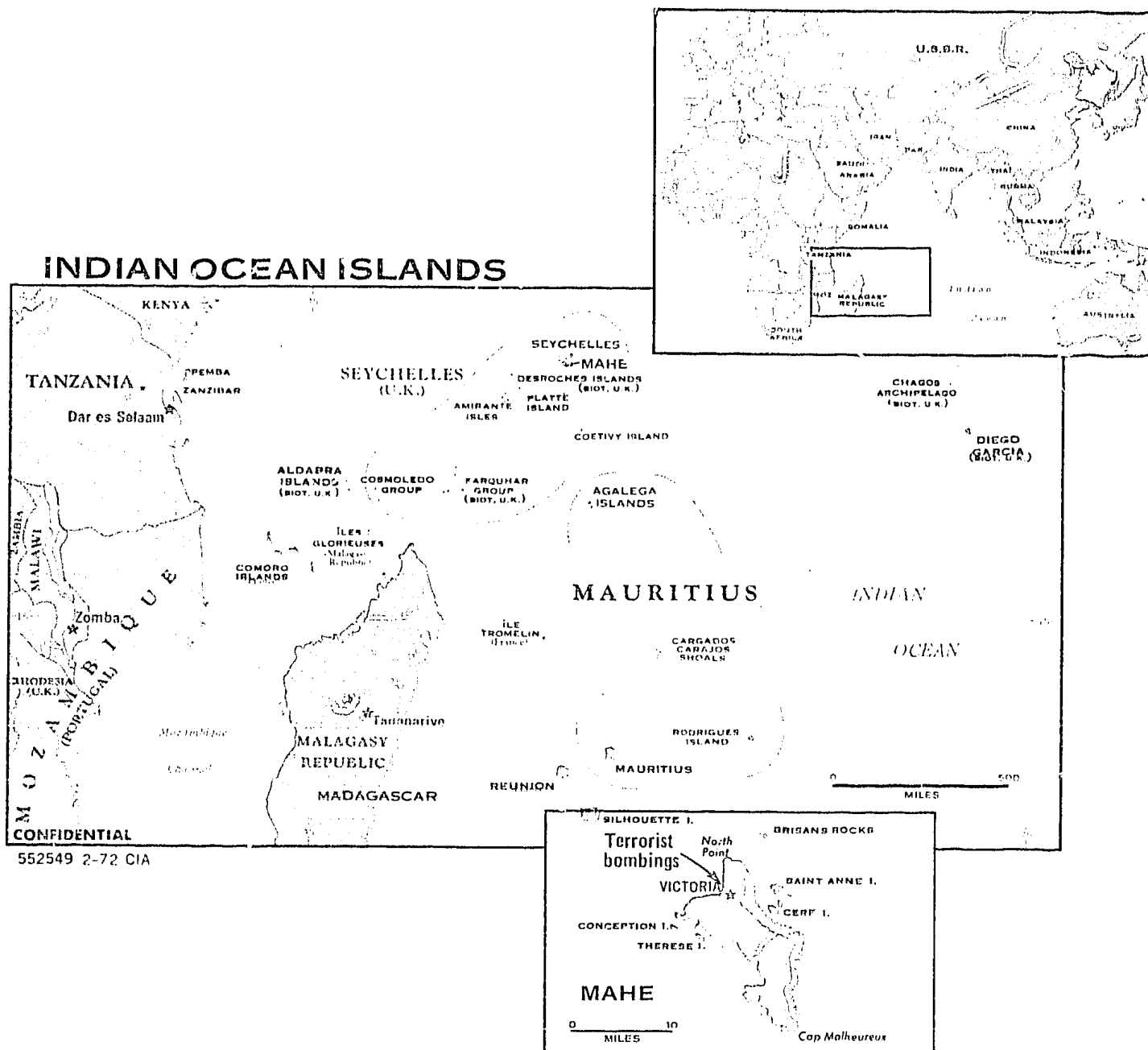
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SEYCHELLES: Two terrorist bombings have underscored a recent threat by the opposition Seychelles People's United Party (SPUP) to take action against tourists and foreign investors.

On Monday, one explosion hit a store owned by an Indian and another caused some damage to a newly completed hotel in the capital city of Victoria on Mahe Island. The terrorists are probably members of the SPUP which has become increasingly radical since it began advocating independence for this British Crown Colony in early 1971. This month the SPUP threatened to use violence to emphasize the party's policy of "Seychelles for the Seychellois."

The SPUP's policy has heightened its conflict with the ruling Seychelles Democratic Party (SDP) which favors continued ties with Britain. Both parties are creatures of a few politicians, and neither has much grass roots support or a coherent program. The SDP government, however, has encouraged tourism and last July opened an international airport. The SPUP has tried to capitalize on popular resentment of an influx of tourists in an effort to build grass roots support.

Britain granted the Seychelles a significant degree of self-government in 1970. The British Governor, however, still wields ultimate authority. Britain would almost certainly grant independence if a majority of the islanders want it. The Seychelles have had limited military value since 1965 when Britain decided to use other islands in the Indian Ocean for its military facilities. (CONFIDENTIAL NO FOREIGN DISSEM)

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USSR: The Soviets are continuing to expand their international highway transport system with the initiation of regular truck service between Moscow and Sofia.

Soviet trucks first obtained foreign passports in 1965 when a small volume of highway freight began to move between the USSR and other Communist countries. In addition, service was later established with most of Western Europe and Mongolia. In 1969 a special organization, Sovtransavto, was formed to promote, organize, and operate this service.

Although the skeleton of an extensive network has been laid, the service is as yet infrequent and the volume is small. Growth has been limited by the lack of suitable trucks and servicing facilities and the poor condition of some roads. The service has been largely used for low-volume, high-value or perishable commodities. For example, auto parts have been trucked from Italy to the Fiat plant in Togliatti and Soviet oriental carpets sent to the UK via road and truck ferries.

International trucking represents only a small percentage of total truck movement in the USSR at present, but the Soviets plan an eight-fold increase in this form of transport during the current five-year plan period (1971-75). Freight turnover this year is expected to be 20 percent above that of 1971. Sovtransavto is soon to receive 400 trucks of 20- to 25-ton capacity compared with the 10- to 14-ton trucks now used. (CONFIDENTIAL)

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BELGIUM: Broadly based demonstrations in economically depressed Wallonia last week have increased pressure on the month-old Socialist-Social Christian government to modernize and decentralize the economy.

Fifteen thousand demonstrators from the province of Liege rallied in the industrial town of Huy to demand that the government act immediately to regenerate the economically stagnant region. They had the backing of prominent Walloon politicians, including Socialist co-president Edmund Leburton.

The politically dominant Flemish Social Christians, who are satisfied with Flanders' economic growth, have been lax, if not indifferent, toward Walloon grievances. In the eyes of the Socialists and their traditional Walloon supporters, the government has failed to stimulate economic activity in Wallonia and procrastinated on the creation of regional councils that are intended to decentralize decision-making in economic affairs.

Wallonia's failure to develop alternatives to its unprofitable and outmoded coal and steel industries has been a prime cause for the region's sluggish economic growth. During the past decade, Wallonia's unemployment rate rose slightly from 4.7 percent to 5.0 percent, whereas Flanders' plummeted from 7.0 percent to 2.7 percent. Moreover, the Walloons are dissatisfied with their region's scanty share of investments benefiting from the economic expansion laws--only 40 percent of the total during the 1960s. The economic imbalance between the two regions probably will continue because the government has not taken effective measures to make Wallonia more attractive to would-be investors than the booming, geographically better-situated Flanders.

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Because legislation pertaining to linguistic affairs was enacted last year, the new government now is free to concentrate on Walloon demands. Further procrastination, however, would test coalition stability, particularly if the Socialist-supported demonstrations spread throughout Wallonia.
(CONFIDENTIAL)

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ANGOLA: White business leaders have again sharply attacked the usually unquestioned policies of the Portuguese Government.

Since last November, Angola's business community has been highly critical of Lisbon because of economic restrictions that strengthened Portuguese control over the economies of its overseas territories, and because of the cosmetic nature of Portugal's new draft law on the overseas territories. At two commercial association meetings in Luanda last month, stinging attacks were delivered against the economic restrictions imposed by Lisbon to improve the territories' unfavorable balance of payments with Portugal. Recent government actions were characterized as "bureaucratic-economic terrorism" and were said to be more intolerable than the outbreak of the insurgency in 1961.

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Lisbon still has the means to prevent local criticism from getting out of hand. Given Angola's dependence on Portugal for men and materiel to

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fight the 11-year-old insurgency and the presence of an approximately 60,000-man Portuguese army in the province, a serious challenge to Portugal's control of Angola is unlikely. Nevertheless, it is just as unlikely that the white Angolans' long pent-up resentment against Lisbon's domination will soon dissipate. (CONFIDENTIAL)

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NOTES

[LAOS: The North Vietnamese are continuing to react to Vang Pao's operations south and east of the Plaine des Jarres. On 15 February irregular units from one task force just south of Route 4 reported several clashes with enemy patrols as the irregulars attempted to move northward. Another irregular force holding a 105-mm. howitzer position on Phou Khe has reported enemy shelling attacks for the past three days but has suffered little damage. The majority of the irregular force is located in the foothills at the southeastern tip of the Plaine. (CONFIDENTIAL)]

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BANGLADESH: The government is allowing food supplies to enter the Bihari enclave of Mirpur near Dacca, and the inhabitants, although still hungry, are not starving, [REDACTED]

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25X1C [REDACTED] Despite the improvement in the food situation and the lack of serious Bengali-Bihari clashes since the beginning of the month, the Biharis at Mirpur and elsewhere in Bangladesh remain deeply depressed over their bleak economic prospects--most are without jobs or money--and fearful of future Bengali vendettas. Many of the up to one million Biharis would like to leave the country, but so far they have no place to go. Indian Foreign Secretary Kaul has told the US ambassador that India will not accept the Biharis--who are Muslims--because of the communal difficulties that could arise between them and India's Hindus. Islamabad has expressed concern for the Biharis' well-being but apparently does not want them. (SECRET)

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FINLAND: A Foreign Office delegation visited Moscow on 8-9 February to explore possible areas of cooperation with the Council for Economic Mutual Assistance (CEMA). The probe is the first such undertaking by a non-Communist government. It resulted in an agreement to hold technical-level talks on such matters as cooperation with CEMA banks. Finnish diplomats claim that one purpose of the trip was to inhibit criticism from domestic politicians who oppose a free trade agreement with the European Communities (EC), one of the issues currently blocking formation of a new government. President Kekkonen earlier this month publicly rejected the EC's initial offer, but it is doubtful that the Finns see collaboration with CEMA as an alternative. They may believe, however, that a link with CEMA would be useful in persuading the USSR not to oppose any eventual Finnish-EC arrangement. (CONFIDENTIAL)

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[ECUADOR: President Velasco has been ousted by the military, led by Army Commander General Rodriguez. The move was taken to prevent populist politician Assad Bucaram from winning the June presidential election. The military last ruled Ecuador from 1963 to 1966. There have been no reports of bloodshed. Velasco, who successfully completed only one of his five presidential terms, will go into exile in Argentina. (CONFIDENTIAL)]

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